



PROFESSIONAL STANDARD 100

**EXTERNAL PEER REVIEW FOR GENERAL INSURANCE AND LIFE
INSURANCE**

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1 INTRODUCTION

1.1 Application

- 1.1.1 This Professional Standard applies to the External Peer Review of general insurance or life insurance Specified Valuations.
- 1.1.2 If the External Peer Review is undertaken of any aspect of a general insurance or life insurance Specified Valuation, then the relevant parts of this Professional Standard are applicable, to the extent that these are within any formal request of the Reviewing Actuary made by the party appointing the reviewing Actuary.
- 1.1.3 This Professional Standard does not seek to replicate or override the requirements of the Institute's Professional Standards directly governing the preparation of Specified Valuation results.

1.2 Classification

- 1.2.1 This Professional Standard has been prepared in accordance with the Institute's *Policy for Drafting Professional Standards*, as varied from time to time. This Professional Standard must be applied in the context of the Institute's Code of Professional Conduct.
- 1.2.2 This Professional Standard is binding on Members of the Institute of Actuaries of Australia, in respect of all work covered by the Professional Standard. Non-compliance with this Professional Standard by a Member engaged in work covered by this Professional Standard is or may be *prima facie* Actionable Conduct and may lead to penalties under the Institute's Disciplinary Scheme.
- 1.2.3 This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by this Professional Standard. If a Member believes that this Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Standards Committee for guidance as to the interpretation of this Professional Standard. Apart from legislation (including regulations, prudential standards, subordinate standards and rules), no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.2.4 Members who find that they cannot carry out work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

1.3 Background

- 1.3.1 In June 2002, the Council of the Institute established a Corporate Governance Taskforce to examine and recommend the actions necessary to support the independence and accountability of the actuarial profession.
- 1.3.2 At the end of 2003, Council adopted a recommendation from the Corporate Governance Taskforce proposing External Peer Review of significant actuarial work. Council identified External Peer Review as a significant means of providing assurance to the public of high standards of performance of key functions by actuaries.
- 1.3.3 An implementation taskforce was subsequently established by the Council to supervise the drafting of an Institute Professional Standard on the subject of External Peer Review.

1.4 Purpose

- 1.4.1 The purpose of External Peer Review is to review and provide a conclusion on the reasonableness of the Primary Actuary's Actuarial Advice. There must be consideration of the investigations undertaken, as well as Specified Valuation results obtained, by the Primary Actuary. Additionally, the Reviewing Actuary must consider whether key risks and uncertainties have been identified by the Primary Actuary.
- 1.4.2 The Reviewing Actuary must recognise that actuarial practice does vary and that the amount, and detail, of work undertaken by the Primary Actuary on any matter will vary, depending upon the extent to which it is considered Material.
- 1.4.3 The report of the Reviewing Actuary must include the requirements set out in section 6. The extent of scrutiny undertaken must be sufficient to support the conclusion to be provided by the Reviewing Actuary. The scope of External Peer Review must cover the requirements of section 6, but the scope of External Peer Review does not extend to performing a Specified Valuation.
- 1.4.4 The responsibility for the Primary Actuary's Actuarial Advice remains with the Primary Actuary. The External Peer Review is a review, but does not provide a guarantee, of the Primary Actuary's Actuarial Advice.

1.5 Previous Versions

There are no previous versions of this Professional Standard.

1.6 Legislation

- 1.6.1 General insurance and life insurance legislative requirements relevant to this Professional Standard are included in the Appendices. In particular, relevant legislation is shown for actuarial valuations of general insurance liabilities, as well as actuarial valuations of life insurance policy liabilities, solvency requirements, capital adequacy requirements and management capital requirements.
- 1.6.2 For Australian authorised general insurers, GPS 310, issued by APRA, mandates peer review for insurance liability valuations, with a requirement that regard be taken of relevant Institute Professional Standards.
- 1.6.3 For Australian authorised life insurers, there is no current mandatory peer review requirement by APRA as at the issue date of this Professional Standard.
- 1.6.4 For licensed self-insurers or accident compensation schemes or other bodies in Australia, legislated by State, Territory, or Commonwealth authorities, there may be, upon specific regulator request, a peer review requirement of general insurance liability valuations.
- 1.6.5 If there is a difference between this Professional Standard and legislation, the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards and rules.

1.7 Materiality

- 1.7.1 The Reviewing Actuary must take into account whether information is Material in the Primary Actuary's Actuarial Advice, as well as in his or her report. Whether something is Material or not will always be a matter requiring the exercise of judgement.

- 1.7.2 The level of detail to be provided in actuarial reporting will depend on the size and complexity of the Entity, and considerations of Materiality.

2 COMMENCEMENT DATE

This Professional Standard takes effect for all External Peer Reviews applicable to valuation dates from 30 June 2006.

3 DEFINITIONS

'Actuarial Advice' has the meaning as defined by the Institute's Code of Professional Conduct.

'Actuary' means a Fellow or Accredited Member of the Institute of Actuaries of Australia.

'APRA' means the Australian Prudential Regulation Authority.

'Board' means the directors of an Entity, or equivalent.

'Entity' means a company, corporation, or other body with a liability to pay insurance claims, or with a liability to compensate other parties.

'External' has the meaning as defined by Section 5 of this Professional Standard.

'External Peer Review' means a review of the reasonableness of the Primary Actuary's Actuarial Advice by the Reviewing Actuary, as governed by this Professional Standard.

'Firm' means a sole practitioner, partnership or corporation of professionals providing professional services.

'Institute' means The Institute of Actuaries of Australia.

'Material' means important or essential in the opinion of the Actuary. For this purpose, 'Material' does not have the same meaning as in Australian accounting standards. 'Materiality' has a consistent meaning to 'Material'.

'Primary Actuary' means the Actuary whose Actuarial Advice is being reviewed in terms of this Professional Standard. Most commonly, the Primary Actuary for such valuations would be the approved actuary of a general insurer, or the appointed actuary of a life insurer, or the Actuary undertaking the valuation of general insurance liabilities for a self-insurer or accident compensation scheme.

'Professional Standard' means a document that details mandatory practice requirements and is issued by the Institute as a Professional Standard to cover an established field of actuarial work.

'Prudential Requirements' means requirements under Commonwealth, State or Territory legislation in Australia, including regulations, prudential standards, subordinate standards and rules, governing Actuarial Advice in relation to a Specified Valuation.

'Reviewing Actuary' means the Actuary reviewing the Primary Actuary's Actuarial Advice in terms of this Professional Standard.

'Specified Valuation' means the actuarial valuation of general insurance liabilities or the actuarial valuation of life insurance policy liabilities, solvency requirements, capital adequacy requirements and management capital requirements for one or more classes of business.

4 APPOINTMENT AND RESPONSIBILITIES

4.1 Appointment of Reviewing Actuary

- 4.1.1 Actuaries accepting an appointment to conduct an External Peer Review must satisfy themselves that they have the relevant expertise and experience consistent with the Institute's Code of Professional Conduct. They must also be satisfied that they meet the definition of External in section 5 of this Professional Standard.
- 4.1.2 At the start of the External Peer Review, the Reviewing Actuary must agree with the party commissioning the review to a suitable scope and form of conclusion that includes the requirements set out in section 6 for the report of the Reviewing Actuary.
- 4.1.3 The agreed scope of the External Peer Review may place limitations on the access of the Reviewing Actuary to intellectual property of the Primary Actuary, such as proprietary actuarial models, but such limitations must not affect the integrity of the review.
- 4.1.4 It is recognised that larger Entities are likely to require the services of more than one Actuary involved in the Specified Valuation. Where the Primary Actuary's Specified Valuation results or report are based on the work of other Actuaries, the scope of the External Peer Review must, having regard to whether information is considered Material, include the related work and reports of those other Actuaries.
- 4.1.5 The Reviewing Actuary must only accept an appointment on condition that his or her report will be addressed to one of the Board, management, the Primary Actuary or the auditor of the Entity, and that copies of the report in its entirety are provided to the other parties. The Reviewing Actuary must acknowledge in writing as part of the appointment that a copy of the report may be provided to APRA.

4.2 Access by Reviewing Actuary

- 4.2.1 The Primary Actuary must provide the Reviewing Actuary with the Specified Valuation report(s) and appendices, containing the Actuarial Advice, that may have been prepared, or equivalent information if reports have not been prepared. If this information does not provide enough information for the Reviewing Actuary to form an assessment, then the Primary Actuary must provide other items on file supporting the Specified Valuation and/or relevant source data. All information must be provided electronically if available in that form.
- 4.2.2 To the extent that it lies within the power of the Primary Actuary, reasonable access must be provided for the Reviewing Actuary to the Primary Actuary, the personnel employed to support the Primary Actuary, staff and auditor of the Entity for which the Primary Actuary's Actuarial Advice was prepared, as well as any contractors or consultants involved in the Specified Valuation. The purpose of giving this access is to help the Reviewing Actuary understand and form conclusions on information related to the Entity for whom the Primary Actuary's Actuarial Advice has been prepared.

4.3 Responsibilities of the Reviewing Actuary

- 4.3.1 It is acknowledged that there can be differences in professional opinion between the Primary Actuary and the Reviewing Actuary. In such situations, there is an inherent need for communication between the Reviewing Actuary and the Primary Actuary. Recognising this, at the earliest opportunity, the Reviewing Actuary must discuss any such issues arising with the Primary Actuary. In doing so, the Reviewing Actuary must be aware that he or she is reviewing the work that has been undertaken, rather than performing a Specified Valuation.
- 4.3.2 Items in each of general insurance and life insurance that must be considered by a Reviewing Actuary are attached as appendices to this Professional Standard. These appendices are provided to assist the Reviewing Actuary, and also to assist the Primary Actuary to prepare for the External Peer Review, and assemble the information required by the Reviewing Actuary.
- 4.3.3 No list of items can be comprehensive enough to cover every possible circumstance, and the items listed are not of equal importance. Matters considered to be of greater Materiality must be given substantial weight, while matters considered to be of lesser Materiality to a particular External Peer Review may be dealt with briefly or omitted.

5 REQUIREMENTS FOR REVIEW TO BE “EXTERNAL”

5.1 Conflicts of interest

- 5.1.1 External Peer Review is intended to provide a review at arm’s length of the Primary Actuary’s Actuarial Advice and, as such, must be free of conflicts of interest. The Reviewing Actuary is considered External provided there is avoidance of conflicts of interest, which would make, or would be perceived by a reasonable person with full knowledge of all relevant facts and circumstances to make, the Reviewing Actuary not capable of exercising impartial judgment in the conduct of the review.
- 5.1.2 The Primary Actuary and the Reviewing Actuary must be satisfied that any personal, commercial or employment relationships with either the Primary Actuary or the Entity do not create conflicts of interest. These relationships include those of the Reviewing Actuary, or those from the same Firm as the Reviewing Actuary, or from an associated company of that Firm.
- 5.1.3 If any such personal, commercial or employment relationships create conflicts of interest, then the External Peer Review appointment must be declined. If the Reviewing Actuary would be reviewing Actuarial Advice that he or she had a part in preparing, then the External Peer Review appointment must be declined.

5.2 Commercial and employment relationships

- 5.2.1 The Reviewing Actuary must disclose in his or her report the existence and nature of any such commercial or employment relationships in the previous two years and explain why the relationship does not affect his or her ability to exercise impartial judgment.
- 5.2.2 The Reviewing Actuary must not be a current employee of the Entity, or of an Entity associated with the Entity receiving the Primary Actuary’s Actuarial Advice. If the Primary Actuary is not employed by the Entity, then the Reviewing Actuary must not be from the same Firm as the Primary Actuary, or from an associated company of that Firm.

- 5.2.3 An Actuary employed by the same Firm as, or by a Firm associated with, the auditor of the Entity is not precluded from conducting the External Peer Review as part of an enhanced audit scope, with the Reviewing Actuary's report being addressed to the auditor, subject to acceptance by the Reviewing Actuary and the auditor of the provisions of paragraph 4.1.5.

5.3 Rotation of Reviewing Actuary

- 5.3.1 A Reviewing Actuary must not accept an engagement for more than five years in a seven-year period to perform External Peer Review of the Specified Valuation of an Entity. Having stood down in accordance with this requirement, a Reviewing Actuary must not accept re-appointment in respect of the same Entity for two consecutive years.
- 5.3.2 This rotation requirement applies to the individual Actuary performing the External Peer Review. Rotation of Reviewing Actuaries can take place within a partnership or firm of Actuaries, provided that each successive Reviewing Actuary meets the requirements set out in this Professional Standard.

6 REPORTING REQUIREMENTS

The Reviewing Actuary's report must include the matters set out in this section.

6.1 Statements by Reviewing Actuary

- 6.1.1 Statements setting out who commissioned the Reviewing Actuary's report, the scope of the review and any limitations placed upon the Reviewing Actuary.
- 6.1.2 Statement that the Reviewing Actuary's report has been prepared in accordance with this Professional Standard, which provides a review, but does not provide an additional Specified Valuation.
- 6.1.3 Attestation of how the Reviewing Actuary meets the definition of External in Section 5.
- 6.1.4 Statement of the Specified Valuation and associated Actuarial Advice being reviewed.
- 6.1.5 Statement that the Reviewing Actuary's report must be read in conjunction with the Primary Actuary's reporting in order for it to be considered in its appropriate context.
- 6.1.6 The Reviewing Actuary must sign and state the date of completion of his or her report.

6.2 Matters for consideration by Reviewing Actuary

- 6.2.1 **Scope:** Consideration by the Reviewing Actuary of the appropriateness of the scope of the Primary Actuary's Specified Valuation and of the Actuarial Advice provided in relation to it.
- 6.2.2 **Data:** Consideration by the Reviewing Actuary of the sources of data, whether appropriate and sufficient data inputs have been used, and that the quality of these has been checked by the Primary Actuary or the personnel employed to support the Primary Actuary.

- 6.2.3 **Valuation methods:** Consideration by the Reviewing Actuary of: whether the methods chosen are suitable in the circumstances and within the range of reasonable current practice; and whether their application has been appropriate.
- 6.2.4 **Assumptions:** Consideration by the Reviewing Actuary of: whether there has been a comparison of actual experience compared to that expected by the valuation basis of the previous balance date, as well as of the previous Specified Valuation (if the previous Specified Valuation was not at the balance date); and that assumptions are consistent with experience investigations, industry trends and reasonable judgement. If assumptions adopted cannot be supported by direct experience or relevant credible experience, the Reviewing Actuary must consider whether they are appropriate compared to industry experience and/or reasonable current practice for the type of business under consideration.
- 6.2.5 **Controls:** Consideration by the Reviewing Actuary of whether appropriate quality assurance reviews and controls are in place.
- 6.2.6 **Analysis of Specified Valuation results:** Consideration by the Reviewing Actuary of: whether results have been developed following a reasonable sequence of steps; consistency within the results; and explanation of changes in the results since the previous balance date, as well as since the previous Specified Valuation (if the previous Specified Valuation was not at the balance date).
- 6.2.7 **Specified Valuation results:** Consideration by the Reviewing Actuary of: whether the results are supported by the experience and any reasonableness tests undertaken by the Reviewing Actuary; that key risks, sensitivities and uncertainties, and their implications, have been identified in the Primary Actuary's reporting; that there has been clear statement of the results, the matters on which the Primary Actuary has relied; and any limitations of the Primary Actuary's Actuarial Advice.
- 6.2.8 **Standards:** The Reviewing Actuary must consider whether the Primary Actuary's Actuarial Advice complies with applicable legislation, including regulations, prudential standards, subordinate standards and rules, and complies with relevant Institute Professional Standards.

6.3 Conclusion by Reviewing Actuary

- 6.3.1 The Reviewing Actuary's report must contain a conclusion, including a final statement. All the matters in the following specimen wording must be covered by the Reviewing Actuary's conclusion:

"I have reviewed the appropriateness of data inputs and data reconciliations undertaken. I have reviewed methods for suitability in the circumstances and against current actuarial practice. I have reviewed assumptions for consistency with available experience and trends. I have reviewed the analysis of change of valuation results. I have reviewed judgements made by the Primary Actuary for reasonableness and Materiality. I have reviewed whether key risks, sensitivities and uncertainties, and their implications, have been identified. I have considered whether there have been departures from relevant legislation (including regulations, prudential standards, subordinate standards and rules), and Professional Standards. I have given suitable weight to all Material factors."

- 6.3.2 Specimen wording of a final statement is as follows, where the Reviewing Actuary's conclusion is as such:

“Having carried out the review as described in this report, nothing has come to my attention that would lead me to believe that the Primary Actuary’s Specified Valuation results are unreasonable.”

- 6.3.3 Where the Reviewing Actuary is unable to make the final statement in 6.3.2, the Reviewing Actuary’s conclusion must contain an alternative final statement, additionally describing the associated reasons, the implications and, where practical, approximate quantification.

Appendix A – GENERAL INSURANCE ITEMS

This appendix provides a list of items to consider for Actuaries engaged in the External Peer Review of Specified Valuations of general insurance liabilities. The Primary Actuary for such Specified Valuations would usually be the approved actuary of a licensed general insurer, or the Actuary undertaking the valuation of general insurance liabilities for a self-insurer or accident compensation scheme. Valuations of general insurance liabilities are required according to the following legislation:

- Under Section 32(1) of the *Insurance Act 1973* (Cth), to be performed in accordance with APRA GPS 310 for authorised general insurers;
- Under particular legislation issued by Commonwealth, State and Territory authorities in Australia applicable to self-insurers, insurance pools and accident compensation schemes.

This list of items to be considered by the Reviewing Actuary is not intended to be comprehensive enough to cover every possible circumstance, and is not limited to the following items.

ITEMS TO BE CONSIDERED BY REVIEWING ACTUARY

A.1 Scope

- Appropriateness of the scope of the Primary Actuary's Specified Valuation
- Actuarial advice provided in relation to the Specified Valuation

A.2 Data

- Appropriateness, sufficiency and sources of data inputs
- Data extraction, summarising, quality checking, reconciliations undertaken by the Primary Actuary
- Evidence of auditing at source
- Reliability
- Reliances

A.3 Valuation methods

- Appropriateness of valuation methods
- Application of valuation methods

A.4 Assumptions

- Process for determining assumptions, and whether based on Entity and/or industry experience
- Actual experience compared to that expected by the valuation basis of the previous balance date, as well as of the previous Specified Valuation (if the previous Specified Valuation was not at the balance date)
- Claim development assumptions
- Claim and policy expense assumptions

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- Reinsurance recovery assumptions, potential for reinsurance bad debt, cost of reinsurance for unexpired period
 - Non-reinsurance recovery and GST/ITC assumptions, potential for non-recovery
 - Normal inflation and superimposed inflation
 - Discounting
 - Exchange rates
 - Potential impact of catastrophes
 - Premium refunds
 - Unclosed premium
 - Risk margins to provide the required probability of sufficiency and any diversification benefit
 - Sensitivity of results to key assumptions

A.5 Controls

- Internal quality assurance process, such as checks performed
- Control process around application of valuation methods
- Other control processes and tools

A.6 Analysis of Specified Valuation results

- Comparisons to gross/net case estimates, earned premium and unearned premium
- Consistency within the results and with actual versus expected analysis
- Explanation of significant movements and differences in the results since the previous balance date, as well as since the previous Specified Valuation (if the previous Specified Valuation was not at the balance date)
- Reconciliation with valuation basis and results since the previous balance date, as well as since the previous Specified Valuation (if the previous Specified Valuation was not at the balance date)

A.7 Specified Valuation results

- Support of results by experience and any reasonableness tests undertaken by the Reviewing Actuary
- Sensitivity of results to key assumptions
- Identification of key risks, and uncertainties, and their implications
- Clear statement of results
- Clear statement of matters on which the Primary Actuary has relied
- Clear statement of limitations of the Primary Actuary's Actuarial Advice

A.8 Standards

- Compliance and disclosures with regard to relevant Professional Standards, and legislation, including regulations, prudential standards, subordinate standards and rules

Appendix B – LIFE INSURANCE ITEMS

This appendix provides a list of items to consider for actuaries engaged in the External Peer Review of life insurance Specified Valuations. The Primary Actuary would usually be the appointed actuary of the authorised life insurer, required according to the following legislation:

- Valuation of policy liabilities under Section 113(2)(a) or 115 where relevant of the *Life Insurance Act 1995* (Cth) in accordance with relevant LIASB standards;
- Determination of solvency requirement under Section 113(2)(b) of the *Life Insurance Act* in accordance with relevant LIASB standards;
- Determination of capital adequacy requirement under Section 113(2)(b) of the *Life Insurance Act* in accordance with relevant LIASB standards;
- Determination of management capital requirement under Section 73E of the *Life Insurance Act* in accordance with relevant LIASB standards.

This list of items for consideration by the Reviewing Actuary is not intended to be comprehensive enough to cover every possible circumstance, and is not limited to the following items.

ITEMS TO BE CONSIDERED BY REVIEWING ACTUARY

B.1 Scope

- Appropriateness of the scope of the Primary Actuary's Specified Valuation
- Actuarial Advice provided in relation to the Specified Valuation

B.2 Data

- Appropriateness, sufficiency and sources of data, particularly grouped data
- Appropriateness, sufficiency and sources of financial data
- Data extraction, summarising, quality checking, reconciliations undertaken by Primary Actuary
- Evidence of auditing at source
- Reliability
- Reliances

B.3 Valuation methods

- Appropriateness of valuation methods
- Application of valuation methods

B.4 Assumptions

- Process for determining assumptions, and whether based on Entity and/or industry experience
- Actual experience compared to that expected by the valuation basis of the previous balance date, as well as of the previous Specified Valuation (if the previous Specified Valuation was not at the balance date)

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- Claim and demographic assumptions
 - Lapse and other policy movement assumptions including premium dormancy
 - Expense and operational assumptions
 - Economic assumptions
 - Exchange rates
 - Reinsurance
 - Inadmissible asset reserves
 - Resilience reserves
 - Reserves for unusual or special assets (eg in-house assets, derivatives, large concentrations, illiquid assets, assets with significant credit exposures)

B.5 Controls

- Internal quality assurance process, such as checks performed
- Control process around application of valuation methods
- Other control processes and tools

B.6 Analysis of Specified Valuation results

- Analysis of results including analysis of impact of change of assumptions from previous valuation basis and analysis of profit
- Consistency within the results and with actual versus expected analysis
- Explanation of significant movements and differences in the results since the previous balance date, as well as since the previous Specified Valuation (if the previous Specified Valuations was not at the balance date)

B.7 Specified Valuation results

- Support of results by experience and any reasonableness tests undertaken by the Reviewing Actuary
- Sensitivity of results to key assumptions
- Identification of key risks, and uncertainties, and their implications
- Clear statement of results
- Clear statement of matters on which the Primary Actuary has relied
- Clear statement of limitations of the Primary Actuary's Actuarial Advice

B.8 Standards

- Compliance and disclosures with regard to relevant Professional Standards, and legislation, including regulations, prudential standards, subordinate standards and rules

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